

## Message Text

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CIEP-02 LAB-06 SIL-01 OMB-01 IO-14 NEA-10 DRC-01

AGR-20 FEA-02 SCI-06 OIC-04 /203 W

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O R 250615Z APR 74

FM AMEMBASSY KUALA LUMPUR

TO DEPT OF TREASURY WASHDC IMMEDIATE

INFO SECSTATE WASHDC 6797

UNCLAS SECTION 1 OF 4 KUALA LUMPUR 1893

TREASURY PASS TO ALAN WADE

CW PASS TO USIA/IPS/USINFO

E.O. 11652: N/A

TAGS: OVIP (SHULTZ)

FOLLOWING IS TEXT OF SECRETARY SHULTZ DELIVERED THURSDAY,  
APRIL 25 AT 0330 GMT. AT SEVENTH ANNUAL MEETING OF ASIAN  
DEVELOPMENT BANK BOARD OF GOVERNORS IN KUALA LUMPUR:

I WELCOME THIS OPPORTUNITY TO PARTICIPATE IN THE SEVENTH  
ANNUAL MEETING OF THE ASIAN DEVELOPMENT BANK, AND WOULD LIKE  
TO EXPRESS MY APPRECIATION TO THE GOVERNMENT OF MALAYSIA FOR  
SERVING AS HOST TO THIS MEETING. WE ARE THANKFUL FOR YOUR  
HOSPITALITY AND HAVE BEEN GREATLY IMPRESSED BY THE VITALITY  
OF THIS BEAUTIFUL CITY. INDEED, DURING OUR VISIT HERE AND  
ON OUR STOPS EN ROUTE IN THE PHILIPPINES, SINGAPORE AND  
INDONESIA, OUR DELEGATION HAS HAD A CHANCE TO SEE FIRST HAND  
THE DYNAMISM OF THE MEMBERS OF THE ASIAN BANK AND HOW THEY  
ARE MEETING THE CHALLENGE OF DEVELOPMENT DIRECTLY AND  
SUCCESSFULLY. IT IS AN ENCOURAGING SIGHT, I CAN ASSURE YOU.

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THESE ARE TIMES WHEN ECONOMIC AND POLITICAL RELATIONSHIPS ARE CHANGING RAPIDLY AND ON A GLOBAL SCALE. NO REGION OF THE WORLD IS ISOLATED FROM THE CODA H BOF CHANGE. OLD ASSUMPTIONS HAVE BEEN CALLED INTO QUESTION AND OLD WAYS OF DOING THINGS NO LONGER SEEM ADEQUATE. NONE OF US IS WISE ENOUGH TO KNOW ALL THE IMPLICATIONS OF THE CHANGES WE SEE. BUT WE ALL RECOGNIZE THE NEED TO MOVE AHEAD--TO FASHION NEW PRINCIPLES WHERE NECESSARY--TO WORK TOGETHER COOPERATIVELY ON THE PROBLEMS AT HAND. WE FINANCE MINISTERS HAVE IN THIS COMMON EFFORT A SPECIAL RESPONSIBILITY TO PARTICIPATE, FOR MANY OF THE PROBLEMS ARE ECONOMIC IN NATURE.

FORTUNATELY, WE HAVE A SOLID FOUNDATION OF COOPERATION UPON WHICH TO BUILD. HERE IN KUALA LUMPUR AND IN OTHER FORUMS, WE CAN SIT DOWN AND CARRY FORWARD FRANK DIALOGUE IN A SPIRIT OF FRIENDSHIP AND GOODWILL TO ASSESS THE NEEDS AND OUR CAPABILITIES TO MEET THEM. THROUGH DIALOGUE AND BY WORKING TOGETHER WE CAN ACHIEVE TANGIBLE RESULTS THAT ARE MUTUALLY ADVANTAGEOUS.

IN ASIA THE UNITED STATES HAS A LONG HISTORY OF ACTIVE PARTICIPATION IN FURTHERING THE REGION'S GOALS. LET ME STATE FORCEFULLY THAT TODAY WE REMAIN AS DEEPLY COMMITTED AS EVER TO THE PEACEFUL DEVELOPMENT OF THE ENTIRE PACIFIC AREA. AND IN THE ASIAN DEVELOPMENT BANK, WE HAVE AN INSTITUTION THAT HAS BEEN A SOURCE OF INCREASING STRENGTH AND A FOCUS OF COOPERATION. IT WILL BE CALLED UPON TO PLAY A GREATER AND GREATER ROLE IN THE REGION'S FUTURE AND WE INTEND TO SUPPORT IT FULLY.

THIS YEAR, MR. CHAIRMAN, I HAVE THE HAPPY PRIVILEGE OF REPORTING TO YOU AND MY FELLOW GOVERNORS CONCRETE EVIDENCE OF OUR COMMITMENT. AFTER SEVERAL YEARS OF INTENSIVE EFFORT, THE UNITED STATES HAS NOW JOINED IN PROVIDING CONCESSIONARY RESOURCES TO THE BANK THROUGH A \$50 MILLION CONTRIBUTION TO THE MULTI-PURPOSE SPECIAL FUND, WHICH I HAD THE HONOR TO AUTHORIZE ON BEHALF OF MY GOVERNMENT JUST A WEEK AGO IN A CEREMONY AT THE BANK'S HEADQUARTERS IN MANILA. FURTHERMORE, WE ARE OPTIMISTIC THAT CONGRESSIONAL APPROVAL WILL

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BE GIVEN TO MAKE A SECOND CONTRIBUTION OF SOFT FUNDS OF \$50 MILLION LATER THIS YEAR. I SHOULD ALSO MENTION THAT WE ARE PREPARED TO TRANSFER THIS INITIAL \$50 MILLION AND SUBSEQUENT CONTRIBUTIONS TO THE PROPOSED NEW ASIAN DEVELOPMENT FUND, JUST AS SOON AS IT IS SET UP. WE SUPPORT THE NEW FUND'S EARLY ESTABLISHMENT AND BELIEVE IT WILL PUT THE FUTURE FLOWS OF CONCESSIONARY RESOURCES TO THE BANK ON A MORE FORMAL AND FIRMER BASIS.

OUR ULTIMATE SUCCESS IN OBTAINING CONCESSIONARY FUNDS FOR THE BANK IN THIS CASE RESULTED FROM AN EFFECTIVE PARTNERSHIP OF BOTH THE EXECUTIVE AND THE LEGISLATIVE BRANCHES OF OUR GOVERNMENT--IN VISITING THE BANK, IN INSPECTING MANY OF ITS PROJECTS, AND EXAMINING CAREFULLY ITS INDIVIDUAL LOANS AND INTERNAL OPERATIONS. WE IN THE EXECUTIVE BRANCH CAN NEVER FORGET THAT WE CANNOT ACT WITHOUT THE BROAD SUPPORT OF THE U.S. PUBLIC, EXPRESSED THROUGH ITS REPRESENTATIVES IN THE CONGRESS.

FOR THAT REASON, I AM PARTICULARLY PLEASED THAT WE HAVE AS PART OF OUR DELEGATION A DISTINGUISHED GROUP FROM BOTH HOUSES OF OUR CONGRESS. THEIR VOICES RAISED IN SUPPORT OF THE ADB, AS THEY BECOME CONVINCED OF ITS REAL SIGNIFICANCE, WILL HAVE A DEFINITE AND FAVORABLE IMPACT ON THE LEVEL OF OUR FUTURE PARTICIPATION.

ALTHOUGH WE HAVE BEEN ABLE TO OBTAIN CONCESSIONARY FUNDS FOR THE BANK, I MUST STATE THAT THE GENERAL ATTITUDE IN THE UNITED STATES TOWARD DEVELOPMENT ASSISTANCE IS A CLOSELY QUESTIONING ONE. WE EXPECT TO BE SUCCESSFUL BUT HAVE NOT YET BEEN SO IN OBTAINING APPROVAL FOR A SECOND U.S. CONTRIBUTION TO THE BANK'S ORDINARY CAPITAL. IN JANUARY OF THIS YEAR, THE HOUSE OF REPRESENTATIVES REJECTED THE ADMINISTRATION'S PROPOSAL FOR A FOURTH REPLENISHMENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION. WE INTEND TO CONTINUE TO WORK VERY HARD IN THE MONTHS AHEAD ON THE ADB LEGISLATION AND ON THE PASSAGE OF IDA IV, WHICH ALSO BENEFITS MANY MEMBERS OF THIS INSTITUTION. BUT WE CANNOT IGNORE THE BASIC FACT THAT SUPPORT FOR THESE PROGRAMS DEPENDS UPON A CONTINUING RECORD OF PERFORMANCE BY THE ADB AND BY ALL THE ASSISTANCE INSTITUTIONS--AND OUR ABILITY

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TO DEMONSTRATE THAT PERFORMANCE IN DOWN-TO-EARTH, UNDER-  
STANDABLE TERMS.

IN REVIEWING THE RECORD OF THE ASIAN DEVELOPMENT BANK I BELIEVE WE CAN ALL TAKE GREAT PRIDE. EIGHT YEARS AGO THE BANK WAS ONLY AN IDEA; TODAY IT IS A LEADING FORCE IN HELPING THE NATIONS OF ASIA MEET THE ECONOMIC AND SOCIAL NEEDS OF MORE THAN HALF A BILLION PEOPLE IN BORROWING MEMBER COUNTRIES. MUCH OF THE CREDIT MUST GO TO PRESIDENT INOUE WHO HAS PROVIDED REMARKABLE LEADERSHIP IN HIS FIRST FULL YEAR IN OFFICE.

IN 1973, THE BANK ACHIEVED ITS FIRST BILLION DOLLARS IN LENDING, AND TOTAL PROJECT LOANS WILL SOON REACH \$1.5 BILLION. IN ACCOMPLISHING THIS, AN APPROPRIATE BALANCE IN

THE LENDING PATTERN HAS BEEN STRUCK, IN MY JUDGMENT, BETWEEN  
LOANS THAT IMPROVE THE ECONOMY AS A WHOLE AND THOSE, SUCH  
AS WATER SUPPLY AND RURAL ELECTRIFICATION, WHICH TOUCH THE  
POOREST PEOPLE DIRECTLY AND ARE TYPICALLY PROVIDED ON  
CONCESSIONARY TERMS.

SIMILARLY, THE BANK HAS WISELY RECOGNIZED THE  
IMPORTANCE OF PRIVATE ENTERPRISE AS A DRIVING FORCE IN

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ACTION EA-14

INFO OCT-01 ISO-00 EB-11 PM-07 NSC-07 SP-03 SS-20 RSC-01

L-03 H-03 PA-04 PRS-01 CIAE-00 INR-10 NSAE-00 USIE-00

AID-20 COME-00 FRB-02 XMB-07 OPIC-12 CIEP-02 LAB-06

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O R 250615Z APR 74

FM AMEMBASSY KUALA LUMPUR

TO DEPT OF TREASURY WASHDC IMMEDIATE

INFO SECSTATE WASHDC 6798

UNCLAS SECTION 2 OF 4 KUALA LUMPUR 1893

TREASURY PASS TO ALAN WADE

PASS TO USIA/IPS/USINFO

IMPORTANCE OF PRIVATE ENTERPRISE AS A DRIVING FORCE IN  
ECONOMIC DEVELOPMENT AND CHANNELLED A SUBSTANTIAL PORTION  
OF ITS LOAN OPERATIONS TO THE PRIVATE INDUSTRIAL  
AND AGRICULTURAL SECTOR. FOR THE FUTURE, ENCOURAGEMENT OF  
HEALTHY CAPITAL MARKETS IS AN AREA OF GREAT POTENTIAL  
PROMISE FOR BANK SUPPORT OF PRIVATE SECTOR ACTIVITY.

BEFORE LEAVING THE AFFAIRS OF THE BANK TO ADDRESS SOME  
OF THE OTHER ISSUES WE ALL FACE, I WOULD LIKE TO SAY A BRIEF  
WORD ABOUT THREE MATTERS OF SPECIAL INTEREST TO THE U.S.

REGARDING THE BANK'S OPERATIONS. AS A GOVERNOR, I WANT TO EMPHASIZE THAT I AM TREMENDOUSLY PLEASED WITH THE POSITIVE RESPONSES BY THE BANK TO THE CONSTRUCTIVE SUGGESTIONS MADE BY GOVERNORS IN THE PAST AND WITH THE VERY EFFICIENT MANNER IN WHICH THE BANK IS PRESENTLY ADMINISTERED.

FIRST, WE ALL RECOGNIZE THAT UNUSUAL ECONOMIC CHALLENGES CONFRONT THE INSTITUTION, PARTICULARLY AS A RESULT OF THE UNCLASSIFIED

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ENERGY SITUATION. I WILL RETURN TO THIS ENORMOUS PROBLEM IN A MOMENT, BUT LET ME JUST URGE AT THIS POINT THAT THE BANK REMAIN AS RESPONSIVE AS EVER TO THE NEED TO EXAMINE AND ADAPT ITS OPERATIONS TO THE CHANGED CONDITIONS.

SECOND, I WOULD LIKE TO COMMEND THE BANK'S CONSTRUCTIVE ROLE IN PROVIDING ASSISTANCE TO THE WAR-TORN MEMBER NATIONS IN INDOCHINA LAST YEAR AND TO ENCOURAGE A CONTINUED ACTIVE ROLE BY THE BANK THERE. WE ARE ALSO MOST HOPEFUL THAT THE EFFORTS OF THIS INSTITUTION, IN COOPERATION WITH THE WORLD BANK, TO ORGANIZE A MULTILATERAL FRAMEWORK FOR ASSISTANCE IN INDOCHINA WILL BEAR FRUIT THIS YEAR.

THIRD, AND PERHAPS THE MOST IMPORTANT OUTSTANDING ISSUE IN THE BANK'S INTERNAL OPERATION FROM THE POINT OF VIEW OF BOTH THE EXECUTIVE AND CONGRESSIONAL BRANCHES OF MY GOVERNMENT, IS THE ISSUE OF POST-EVALUATION. I WANT TO COMMEND THE OFFICERS OF THE BANK FOR HAVING TAKEN THE VERY IMPORTANT FIRST STEP OF ESTABLISHING A SEPARATE INTERNAL GROUP TO EVALUATE PROJECTS AFTER THEIR COMPLETION. THE QUALITY OF THE FIRST TWO EVALUATION STUDIES HAS BEEN EXCELLENT. NOW MR. CHAIRMAN, WE BELIEVE THE TIME IS RIPE TO TAKE THE SECOND AND EQUALLY ESSENTIAL STEP OF PROVIDING FOR FULLY INDEPENDENT EVALUATIONS OF VARIOUS ASPECTS OF THE BANK'S OPERATIONS BY MAKING THE EVALUATION GROUP DIRECTLY RESPONSIBLE TO THE BOARD OF DIRECTORS. IN THIS RESPECT, I AM HAPPY TO SEE THAT THE EVALUATION PROPOSAL CURRENTLY BEING DISCUSSED BY THE BANK'S BOARD OF DIRECTORS INCORPORATE THOSE FEATURES SO IMPORTANT TO ASSURING THIS TYPE OF INDEPENDENCE.

OUR CONCERN WITH THIS MATTER IS NOT DUE TO ANY LACK OF CONFIDENCE IN THE BANK OR ITS PRESIDENT. QUITE THE CONTRARY, THIS TYPE OF INDEPENDENT MECHANISM CAN PROVIDE INDEPENDENT EVIDENCE OF THE HIGH QUALITY OF BANK OPERATIONS AND THEIR BENEFICIAL IMPACT ON RECIPIENT COUNTRIES, AND THEREBY HELP MAINTAIN OVER TIME THE CONFIDENCE OF DONOR AND RECIPIENT COUNTRIES ALIKE.

TODAY WHEN DEVELOPMENT IS THREATENED BY SHORTAGES

OF ENERGY, FOOD AND FERTILIZER, WHEN MONETARY RELATIONSHIPS  
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ARE IN A STATE OF FLUX, WHEN NEW TRADE AND INVESTMENT ISSUES  
ARE THRUST UPON US, I WANT TO RANGE WIDELY IN MY REMARKS,  
TO ADDRESS AREAS NOT TRADITIONALLY IDENTIFIED WITH THE  
WORK OF THE BANK.

THE PROBLEMS OF MONETARY REFORM, TRADE, INFLATION AND  
ENERGY ARE PROBLEMS COMMON TO ALL NATIONS, CUTTING ACROSS  
ALL AREAS OF ECONOMIC ACTIVITY, BUT THEY PARTICULARLY AFFECT  
DEVELOPMENT AND THE EFFORTS OF THE BANK.

ON MONETARY REFORM, EVERY NATION REPRESENTED HERE HAS  
A REAL INTEREST IN SEEING THAT SATISFACTORY AGREEMENT IS  
REACHED AT THE FINATBMEETING OF THE COMMITTEE OF 20 IN JUNE,  
BOTH ON GENERAL PRINCIPLES FOR THE FURTHER EVOLUTION OF THE  
SYSTEM AND ON IMPLEMENTATION OF A SERIES OF SPECIFIC MEASURES  
FOR THE INTERMEDIATE FUTURE.

IN THE PROPOSED NEW GOVERNORS' COUNCIL OF THE INTER-  
NATIONAL MONETARY FUND, I BELIEVE WE HAVE A PROMISING APPROACH  
TOWARD STRENGTHENING MONETARY COOPERATION AND THE ROLE OF  
THE FUND. AT THE JUNE MEETING WE CAN ALSO HOPE FOR AGREEMENT  
ON GUIDELINES FOR THE ADJUSTMENT SYSTEM AND ON A TEMPORARY  
VALUATION SCHEME FOR THE SDR, AS WELL AS A STANDSTILL ON  
TRADE RESTRICTIONS. TOGETHER WITH THE PRINCIPLES FOR THE  
LONGER TERM, THESE STEPS WILL PROVIDE A SOLID BASIS FOR  
ORDERLY EVOLUTION OF THE SYSTEM OVER TIME. I BELIEVE IT  
IS UP TO MINISTERS TO MAKE A MAXIMUM EFFORT TO REACH SUCH  
AN AGREEMENT, NOT BECAUSE AGREEMENT IS IN THE SPECIAL  
INTEREST, NARROWLY CONCEIVED, OF MY NATION OR ANY SINGLE  
GROUP OF NATIONS BUT BECAUSE IT IS IN THE GENERAL INTEREST.  
WITH SUCH AGREEMENT, NEEDED STABILITY AND FLEXIBILITY WILL  
BE PROVIDED DURING THE DIFFICULT PERIOD OF TRANSITION.

SECOND, IN TRADE WE ARE ALSO APPROACHING NEW NEGOTIA-  
TIONS ON A WORLD SCALE. EVERY COUNTRY REPRESENTED HERE CAN  
BENEFIT FROM REDUCED BARRIERS TO TRADE, AND THERE ARE LARGE  
STRANDS OF COMMON INTEREST AMONG US TO BE PURSUED IN THESE  
NEGOTIATIONS.

MORE SPECIFICALLY, I AM HOPEFUL THAT OUR PROPOSED  
DOMESTIC LEGISLATION--WHICH CONTAINS A PROVISION FOR  
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PREFERENTIAL ENTRY INTO THE U.S. MARKET OF PRODUCTS FROM  
DEVELOPING COUNTRIES--WILL BE PASSED IN THIS SESSION OF  
CONGRESS.

AS WE WORK TOWARD MORE OPEN MARKETS, HOWEVER, WE MUST  
BE CONSCIOUS OF A NEW THREAT TO FREE TRADE FROM ACTION TO  
RESTRICT SUPPLIES. WE FAVOR FREE TRADE, BUT IT MUST BE ON  
A FAIR BASIS. FRANKLY, WE ARE DISTURBED BY SOME TENDENCIES  
WE SEE AT WORK TO RESTRICT THE SUPPLIES MADE AVAILABLE TO  
THE WORLD MARKET--EITHER THROUGH EXPORTER COLLUSION AIMED  
DIRECTLY AT INFLUENCING WORLD PRICES OR THROUGH EXPORT  
TAXES AND OTHER RESTRICTIONS AIMED AT INSULATING DOMESTIC  
MARKETS FROM THE GENERAL UPWARD TREND OF PRIMARY-PRODUCT  
PRICES. INDEED, THE POLITICAL PROCESSES IN THE UNITED  
STATES, AT A TIME OF HIGH PRICES FOR FOOD, ARE NOT FREE  
OF PRESSURES FAVORING SUCH INSULATION.

BUT I BELIEVE WE ARE JUSTIFIED IN POINTING WITH PRIDE  
TO THE FACT THAT THESE PRESSURES HAVE BEEN RESISTED--AND WE  
MEAN TO KEEP ACCESS TO OUR MARKETS OPEN. BUT FOR THE LONG  
RUN THIS COMMITMENT CAN BE ECONOMICALLY AND POLITICALLY  
DEFENSIBLE ONLY IN THE CONTEXT OF RECIPROCAL RESPONSIBILITIES.  
COOL AND DISPASSIONATE INTERNATIONAL EXAMINATION OF THIS  
PROBLEM SEEMS TO ME URGENT. ULTIMATELY, THE PROBLEM AND  
ITS SOLUTION ARE GLOBAL IN NATURE.

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O R 250615Z APR 74

FM AMEMBASSY KUALA LUMPUR

TO DEPT OF TREASURY WASHDC IMMEDIATE

INFO SECSTATE WASHDC 6799

UNCLAS SECTION 3 OF 4 KUALA LUMPUR 1893

TREASURY PASS TO ALAN WADE  
PASS TO USIA/IPS/USINFO

FOR YEARS, THE PROBLEM OF INFLATION WAS ONE ENDEMIC TO ONLY A FEW NATIONS. YET TODAY THE PROBLEM HAS BECOME WORLDWIDE, DEMANDING A COMMON EFFORT IN THE INTERESTS OF BOTH OUR NATIONAL AND INTERNATIONAL PROSPERITY. MANY OF YOUR ECONOMIES ARE AFFECTED DIRECTLY BY THE PRICE LEVEL IN THE U.S., SO LET ME STATE SIMPLY THAT INFLATION IS A MATTER OF MAJOR CONCERN TO US. WE HAVE NOT AND WILL NOT BE TIMID IN ATTACKING IT. BUDGET AND MONETARY DISCIPLINE MUST BE MAINTAINED. BUT THE WORLDWIDE SUPPLY SHORTAGES IN BASIC COMMODITIES HAVE, OF COURSE, MADE ITS SOLUTION AND MANAGEMENT MORE DIFFICULT--A FACT WHICH ONLY UNDERLINES THE URGENCY FOR ALL NATIONS TO FOLLOW RESPONSIBLE DOMESTIC AND INTERNATIONAL ECONOMIC POLICIES.

NEVERTHELESS, THERE ARE GROUNDS FOR AT LEAST CAUTIOUS OPTIMISM ON THE OUTLOOK FOR PRICES IN THE UNITED STATES. FOR EXAMPLE, AGRICULTURAL PRICES HAVE RECEDED SINCE THE GREAT SURGE THAT BEGAN LAST SUMMER. PRICES OF SUCH BASIS  
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PRODUCTS AS SOYBEANS, WHEAT, CORN, HOGS, POULTRY AND BEEF ARE NOW BELOW THEIR HIGH POINTS BY 25 TO 50 PERCENT AND WELL BELOW THEIR LEVEL OF A YEAR AGO. THE LESSON HERE IS THAT ONCE ACREAGE RESTRICTIONS WERE REMOVED, LETTING THE PRICE INCENTIVE WORK FREELY, MARKET FORCES BROUGHT FOURTH A LARGE INCREASE IN SUPPLY. AS WE EXPORT TWO-THIRDS OF OUR WHEAT AND CLOSE TO \$20 BILLION OF AGRICULTURAL PRODUCTS A YEAR, THE DROP IN GRAINS PRICES RESULTING FROM OUR INCREASED OUTPUT WILL HELP TO REDUCE THE UPWARD PRESSURE ON PRICES IN OTHER NATIONS AND PROVIDE MORE SUPPLIES FOR NEEDY NATIONS. SINCE THE RISE IN FOOD PRICES IN THE UNITED STATES ACCOUNTED FOR ROUGHLY 60 PER CENT OF THE TOTAL INCREASE IN OUR COST OF LIVING OVER THE PAST 16 MONTHS, THE IMPACT OF THIS DECLINE WILL BE MOST BENEFICIAL AS IT WORKS ITS WAY THROUGH THE ECONOMY.

THE OTHER MAJOR COMPONENT OF OUR DOMESTIC INFLATION HAS, OF COURSE, BEEN THE COST OF ENERGY, WHICH CONTRIBUTED 25 PER CENT TO THE RISE IN OUR DOMESTIC PRICES OVER THE PAST TWELVE MONTHS. AND, INDEED, THE ENERGY PROBLEM POSES THE MOST SERIOUS CURRENT ECONOMIC CHALLENGE TO THE WORLD IN GENERAL AND DEVELOPING COUNTRIES IN PARTICULAR.



WHILE NO ONE CAN REASONABLY PREDICT THAT OIL PRICES WILL RETURN TO THE LEVEL OF A YEAR AGO, THERE IS ROOM FOR OPTIMISM ON THE OUTLOOK FOR THE PRICE OF CRUDE OIL. IN THE SHORT RUN, I BELIEVE, THERE WILL BE FURTHER DOWNWARD MOVEMENT SIMILAR TO THAT WHICH HAS OCCURRED IN THE LAST FEW MONTHS, AS HIGHER PRICES AND CONSERVATION EFFORTS DAMPEN DEMAND AND PRODUCTION RETURNS TO PREVIOUS LEVELS. IN THE NO-SO-LONG-RUN, HOWEVER, HIGH PRICES WILL STIMULATE A CREATIVE REACTION--THE WORLD'S BEST PEOPLE AND ORGANIZATIONS WILL JOIN IN A CONCERTED EFFORT, WHICH WILL INEVITABLY RESULT IN NEW SUPPLIES AND UNDREAMED OF SUBSTITUTES, WHICH MAY AFFECT PRICES EVEN MORE DRAMATICALLY THAN WE DARE CONTEMPLATE. A BOOM-BUST PRICE PATTERN IS IN NO ONE'S INTEREST--NOT PRODUCERS NOR CONSUMERS--AND ONE THING IS CERTAIN, THE LONGER PRICES STAY HIGH IN THE SHORT RUN, THE MORE LIKELY IT IS THAT THEY WILL FALL SHARPLY IN THE LONG RUN. THAT HAS BEEN THE HISTORY OF EVERY OTHER COMMODITY IN THE PAST.

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THE ABRUPTNESS AND THE MAGNITUDE OF RECENT PRICE INCREASES HAVE CREATED PROBLEMS THAT ARE VIRTUALLY UNMANAGEABLE FOR MANY BORROWERS OF THE BANK, AS WELL AS MANY OTHER DEVELOPING COUNTRIES IN OTHER AREAS OF THE WORLD. DIRECT AND URGENT MEASURES ARE NEEDED TO ALLEVIATE THEIR SITUATION. IN THIS CONTEXT, IT IS ESSENTIAL THAT TRADITIONAL LEVELS OF DEVELOPMENT PROJECT ASSISTANCE BE CONTINUED BY INDUSTRIALIZED NATIONS. IT IS EQUALLY ESSENTIAL THAT OIL PRODUCERS WHO HAVE SUDDENLY BECOME ENORMOUSLY RICH JOIN IN PROVIDING AID TO THE POOREST--PARTICULARLY ON A CONCESSIONARY BASIS. WE WELCOME THE INITIAL POSITIVE RESPONSE OF SOME OIL PRODUCERS WHO HAVE ANNOUNCED THEIR INTENTIONS TO PROVIDE HELP TO LESS FORTUNATE NATIONS, BUT MUCH MORE MUST BE DONE BY THEM IF WE ARE TO AVERT WIDESPREAD DISASTER FOR THE POOREST NATIONS.

AS I MENTIONED EARLIER, ENERGY POSES A UNIQUE CHALLENGE TO THE BANK. IN MY VIEW, OPERATIONS MUST BE EXAMINED AND REORIENTED TO TAKE INTO ACCOUNT THE CHANGED SITUATION EMERGING FROM ENERGY PRICES, AND THE FOLLOWING SUGGESTIONS ARE OFFERED FOR YOUR CONSIDERATION IN A CONSTRUCTIVE VEIN.

FIRST, IT WILL BE MORE IMPORTANT THAN EVER TO HUSBAND THE SCARCE CONCESSIONARY FUNDS OF THE BANK FOR THE POOREST COUNTRIES.

SECOND, THE INCREASED ECONOMIC VALUE OF ENERGY PRODUCT CARRIES AS A DIRECT AND LOGICAL IMPLICATION THAT THERE SHOULD BE A GREATER EMPHASIS ON ENERGY. AND THIS IMPLICATION APPLIES NOT ONLY TO PROJECT FINANCING BY THE BANK BUT ALSO

TO THE ALLOCATION OF LOCAL INVESTMENT RESOURCES BY THE  
MEMBER COUNTRIES. BUT IT DOES NOT EXEMPT THE INITIATIVES  
ELICITED BY THESE NEW CHALLENGES TO DEVELOPMENT FROM MEETING  
THE RIGOROUS AND PROFESSIONAL STANDARDS WHICH THIS BANK IS  
TRYING TO IMPLEMENT IN ITS OWN WORK AND TO FOSTER AT THE  
NATIONAL LEVEL. MUCH HARD PROFESSIONAL WORK THEREFORE LIES  
AHEAD IN IDENTIFYING THE TYPES OF INVESTMENT THE ATTRACTIVE-  
NESS OF WHICH HAS BEEN MOST ENHANCED BY OUR NEW ASSESSMENT  
OF ECONOMIC REALITIES IN THE ENERGY SPHERE, AND IN GOING  
THROUGH THE ARDUOUS WORK OF PROJECT PREPARATION ON THE  
SPECIFIC PROJECTS OF EACH TYPE TO BE IMPLEMENTED.

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THE INCREASED COST OF ENERGY HAS PROMPTED THE U.S.,  
WHICH NOW PRODUCES 85 PER CENT OF ITS ENERGY NEEDS AND  
70 PER CENT OF ITS PETROLEUM NEEDS, TO UNDERTAKE MASSIVE  
AND SOPHISTICATED RESEARCH ON THE DEVELOPMENT OF ALL FORMS  
OF ENERGY. IN VIEW OF THE VAST RESERVES OF COAL, OIL SHALE  
AND OTHER  
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COME-00 AID-20 FRB-02 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 OMB-01 STR-08 CEA-02 IO-14 AGR-20 NEA-10 DRC-01

OIC-04 /195 W

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O R 250615Z APR 74

FM AMEMBASSY KUALA LUMPUR

TO DEPT OF TREASURY WASHDC IMMEDIATE

INFO SECSTATE WASHDC 6800

UNCLAS SECTION 4 OF 4 KUALA LUMPUR 1893

TREASURY PASS TO ALAN WADE

PASS TO USIA/IPS/USINFO

PRIVATE CAPITAL WILL FLOW AND WILL HAVE ITS BENEFICIAL

EFFECTS, BUT ONLY WHERE IT GETS A REASONABLE RETURN AND WHERE IT ENJOYS REASONABLE SECURITY. BY THE SAME TOKEN, FREQUENT CHANGES IN RULES AND CONDITIONS FOR INVESTMENT DETER ITS FLOW. ENCOURAGEMENT OF STABLE CONDITIONS FOR INVESTMENT SHOULD BE ON THE AGENDA OF THE BANK, AS WELL AS OF OUR RESPECTIVE GOVERNMENTS, NOT AS A DOCTRINAL MATTER BUT AS A PRAGMATIC EXERCISE OF GOOD DEVELOPMENTAL SENSE.

THE OTHER SIDE OF THIS COIN, OF COURSE, IS THE ACTION OF CAPITAL EXPORTING NATIONS. I AM PARTICULARLY PLEASED THAT THE TENDENCY FOR MANY DEVELOPED COUNTRIES TO RESTRAIN FLOWS OF CAPITAL HAS, AT LEAST IN PART, BEEN REVERSED IN RECENT MONTHS. TODAY, I KNOW OF NO OFFICIAL IMPEDIMENTS TO THE FLOW OF CAPITAL FROM THE UNITED STATES, OR INDEED ON THE POSSIBILITY OF COUNTRIES IN GOOD CREDIT STANDING TO TAP INTERNATIONAL MONEY MARKETS. AND THERE NEVER HAVE BEEN SIGNIFICANT RESTRICTIONS ON THE MOVEMENT OF FOREIGN FUNDS INTO TTG UNITED STATES IN THE FORM OF EITHER DEBT OR UNCLASSIFIED UNCLASSIFIED

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EQUITY CAPITAL. JUST AS WE ARE STRIVING TO REFORM THE MONETARY AND TRADING ORDER, WE SHOULD ALSO BE WORKING TO ENSURE THAT CAPITAL IN ITS MANY FORMS CAN FLOW FREELY AMONG COUNTRIES TO THE BENEFIT OF ALL. IF THERE ARE REMAINING PROBLEMS IN THIS AREA, LET US APPRAISE THEM TOGETHER AND ASSESS WHAT NEEDS TO BE DONE.

IN LOOKING AT THE ECONOMIC CRISES AND UNCERTAINTIES THAT WE HAVE FACED ON THE PAST TWO YEARS, IT BECOMES ABUNDANTLY CLEAR THAT ALL OF OUR MAJOR ECONOMIC PROBLEMS-- MONEY, TRADE, INVESTMENT, DEVELOPMENT, INTERNAL PRICE STABILITY AND GROWTH--ARE INEXTRICABLY LINKED--THAT PROGRESS IN ONE AREA CAN AFFECT PROGRESS IN ALL--AND THAT THE LESS DEVELOPED NATIONS ARE THOSE LEAST EQUIPPED TO WEATHER PERIODS OF ECONOMIC TURBULENCE.

IF WE ARE TO SOLVE THE DIFFICULT ECONOMIC PROBLEMS THAT CONFRONT US, IT IS EQUALLY CLEAR THAT ALL NATIONS MUST PULL TOGETHER AND BUILD ON THE WORK OF THE MEN AND INSTITUTIONS THAT HAVE GONE BEFORE. OF LATE THERE HAS BEEN A DISTURBING TREND FOR AN INCREASING NUMBER OF COUNTRIES TO BELIEVE THEIR NATIONAL INTEREST CAN BEST BE SERVED BY GOING THEIR SEPARATE WAYS. HISTORY TEACHES US A DIFFERENT LESSON, AND I AM CONVINCED THAT IT MAKES SENSE FOR US AND FOR OTHER NATIONS TO COOPERATE ON A REGIONAL AND GLOBAL BASIS. LET US SET ABOUT THIS TASK HERE IN THE ASIAN DEVELOPMENT BANK AND ELSEWHERE;

IN CONCLUSION, MR. CHAIRMAN, I WANT TO RE-EMPHASIZE MY APPRECIATION OF THE LEADERSHIP OF THE ASIAN DEVELOPMENT BANK, FOR ITS HIGHLY COMMENDABLE EFFORTS AND RECORD OF

ACHIEVEMENT OVER THE PAST YEAR AND YEARS. I WANT TO EMPHASIZE AS WELL, THE VERY STRONG AND CONTINUING SUPPORT WHICH THE UNITED STATES WILL GIVE TO THE OPERATIONS AND ACTIVITIES OF THE BANK. WE CONSIDER THIS INSTITUTION TO BE A LANDMARK SUCCESS AND WE LOOK FORWARD WITH GREAT ANTICIPATION TO EVEN MORE SUCCESSFUL ACHIEVEMENTS IN THE FUTURE. THE UNITED STATES, AS WELL AS ALL OTHER DEVELOPED AND DEVELOPING MEMBER COUNTRIES OF THE BANK, HAS A GREAT INTEREST AND A TREMENDOUS STAKE IN ITS SUCCESS.

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THIS IS MY LAST ANNUAL MEETING AS U.S. GOVERNOR OF THE ADB. I WILL SHORTLY BE RETURNING TO PRIVATE LIFE, BUT I WANT TO ASSURE YOU OF THE SUSTAINED EFFORT OF MY GOVERNMENT AND MY SUCCESSOR TO THE GOALS I HAVE SPOKEN OF TODAY.

IN SAYING GOODBYE, I WOULD LIKE TO PAY MY RESPECTS-- TO PRESIDENT INOUE FOR HIS OUTSTANDING LEADERSHIP IN A

TIME OF GREAT CHALLENGE FOR THIS BANK--TO MY FELLOW GOVERNORS FOR THEIR SPIRIT OF FRIENDSHIP AND PROFESSIONALISM--AND TO THE MEN AND WOMEN WHO MAKE UP THIS GREAT INSTITUTION, AND WHO HAVE WORKED THE HARDEST AT MOVING FORWARD IN PRACTICAL WAYS OUR GOALS OF PROMOTING THE WELFARE OF ASIA AND ASIANS. ITEM.  
MAHONEY

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## Message Attributes

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**TAGS:** OVIP, EFIN, US, MY, ADB-1, (SHULTZ, GEORGE P)  
**To:** TRSY  
**Type:** TE  
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